

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317)232-9855

**ADMINISTRATIVE RULE  
FISCAL IMPACT STATEMENT**

**PROPOSED RULE:** 01-303

**STATE AGENCY:** Family & Social Services Administration

**DATE PREPARED:** Dec 27, 2001

**DATE RECEIVED:** Nov 13, 2001

**FISCAL ANALYST:** Kathy Norris

**PHONE NUMBER:** 234-1360

**Digest of Proposed Rule:** This proposed rule revision adds another source to the current legend drug reimbursement algorithm used by the Medicaid program. The current payment for legend drugs is calculated by using the lowest of three values derived from different sources. This amendment adds another source - a state-calculated maximum allowable cost (MAC) of the drug as determined by the Office of Medicaid Policy and Planning (OMPP) as of the date of dispensing, plus any applicable Medicaid dispensing fee. The proposed rule defines the state MAC as equal to the average invoice acquisition cost per drug, increased by a multiplier of at least 1.0. The rule allows the OMPP to adjust the multiplier of the MAC limits as necessary to reflect changes in product availability. According to OMPP, the implemented rule will initially have a multiplier of 1.2.

The rule also requires pharmacies and providers to make available and submit acquisition cost information and product availability information necessary for the administration of the state MAC as a condition of participation in the Indiana Medicaid Program.

**Governmental Entities:**

The first year fiscal impact of the proposed rule is dependent upon the rule promulgation process. OMPP estimated the earliest the state MAC rule could be implemented is June 1, 2002, resulting in savings to the Medicaid program of approximately \$1.67 M in the first year; the associated state savings for FY 2002 would be \$.6 M. Fully implemented, OMPP estimates the annual savings to be \$20 M which would be realized in FY 2003. State savings are estimated to be \$7.6 M annually. There are no unfunded mandates placed upon any state agency by this rule.

Local governmental entities that provide Medicaid-funded legend drugs, such as the pharmacies of county-owned hospitals, may experience some decrease in payments related to Medicaid reimbursement for legend drugs as a result of this rule. These pharmacies would also be impacted by the required data collection cost if selected to be part of a quarterly sampling for determining product acquisition cost. The rule requires participation in the acquisition cost survey as a condition of participation in the Indiana Medicaid Program. (See potential impacts below.) Consequently, program reimbursement levels and the rules for participation in the program are changed. However, since program participation is optional, the rule change does not impose an unfunded mandate on local government units that are involved in the Medicaid program.

**Regulated Entities:**

Total savings to the Medicaid program and the subsequent state savings will result in an aggregate reduction in payments to participating pharmacies equal to the amount of savings anticipated. Savings in total are estimated at \$1.67 M in FY 2002 and \$20 M in FY 2003.

In addition, the cost of compliance with the product acquisition cost surveys for pharmacies selected to participate in the quarterly sample may be considered additional cost or opportunity cost depending on how individual providers must respond to the requirement. The rule requires pharmacies and providers to make available and submit acquisition cost information and product availability information necessary for the administration of the state MAC as a condition of participation in the Indiana Medicaid Program. Providers will not be reimbursed for the cost of the data collection. The information is needed to calculate the average actual cost of product acquisition and to make sure that the MAC limits are adequate to ensure product availability. The information will be collected on a quarterly basis from a sample of pharmacies; the sample size is anticipated to be 50 pharmacies each quarter. (There are approximately 1,200 pharmacies enrolled in the Medicaid program.) OMPP estimates that the required information will take each pharmacy approximately two hours to respond to the data request. OMPP estimates the cost of compliance with the data collection requirements to cost from \$100,000 to \$200,000 annually. This estimate results in an hourly cost ranging from \$250 to \$500 for participating pharmacies.

**Information Sources:** Donna Sembroski, Marc Shirley, and Pat Nolting of the Office of Medicaid Policy and Planning. Jared Duzan, Myers and Stauffer, LC.